

**Owner's/Shareholder's Statement of Income and Deductions**

**Instructions to Pass Through Entity**

At the top left-hand corner, enter the beginning and ending dates of the tax period. At the top, right-hand corner, check the appropriate box indicating a Subchapter K entity or S corporation. Check the appropriate block if this form serves as a final K-1 or an amended K-1

**Part I, Information about the Pass Through Entity**

**Line A.** Enter the Subchapter K entity's/S corporation's Federal Identification Number.

**Line B.** Enter the Subchapter K entity's/S corporation's name, mailing address (with complete ZIP code).

**Part II, Information about the Owner/Shareholder**

**Line C.** Enter the owner's/shareholder's social security number/federal identification number.

**Line D.** Enter the owner's/shareholder's name

**Line E.** Enter the owner's/shareholder's address

**Line F.** Enter the owner's/shareholder's city, state, and complete ZIP code.

**Line G.** Check the appropriate box if this owner is a member of a Subchapter K entity as a general partner or limited partner.

**Line H.** Enter the owner's/shareholder's entity type.

**Line I.** Enter the owner's/shareholder's percentage of profit and (loss) sharing during the tax year.

**Line J.** Check the appropriate box to indicate the resident status of the owner/shareholder.

**Line K.** Enter the owner's/shareholder's basis in the Subchapter K entity/S corporation.

**Line L.** Enter additional notes.

**Part III, Owner's/Shareholder's Share of Current Year Alabama Income, Deductions, Credits, and Other Items.**

**Line M.** Enter this owner's/shareholder's distributive share of income, loss, deduction, and credit attributed to Alabama. For example, if the entity has Alabama adjusted income of \$100,000 and its Alabama apportionment ratio is 10%, the income attributed to Alabama is \$10,000. If the owner's/shareholder's percentage of ownership/share-days ownership is 10%, the amount to be entered on line 1 is 10% of \$10,000 or \$1,000. This same procedure is used to determine the amounts to be entered on lines N, O, P, Q, R, S, T, V, and W if appropriate.

**NOTE:** For S corporations, each recognized built-in gain item and each passive investment income item is reduced by its proportionate share of the built-in gains tax and excess net passive income tax respectively before entering on the Schedule K-1.

**Line N.** Enter this owner's pro rata share of the Alabama Subchapter

K entity guaranteed payments allocated and apportioned to Alabama from Form 65.

**Line O.** Enter the owner's/shareholder's pro rata share of the total §179 expense.

**Line P.** Include on this line the interest expense allocable to debt on property held for investment purposes.

**Line Q.** Enter only the investment income included on line M above.

**Line R.** Enter only the investment expenses incurred from investment income included on line M above.

**Line S.** Enter the owner's/shareholder's pro rata share of the total of charitable contributions.

**Line T.** List the owner's/shareholder's pro rata share of the other deductions.

**Line U.** Enter the amount of composite payment made to Alabama by the Subchapter K entity/S corporation on behalf of the owner/shareholder only if the owner/shareholder is a nonresident.

**Line V.** Enter the shareholder's pro rata share of the U.S. income taxes paid from Form 20S (S corporation only).

**Line W.** Enter the shareholder's pro rata share of the total casualty losses from Form 20S (S corporation only).

**Line X.** Enter the owner's/shareholder's withdrawals and distributions during the tax year.

**Line Y.** Enter additional information.

If the owner/shareholder is not a resident of Alabama, an Alabama Schedule NRA may be completed and submitted with Form 65/Form 20S if one has not been previously filed. If the Alabama Schedule NRA is not submitted for a nonresident owner/shareholder, the Subchapter K entity/S corporation must complete Form PTE-C, Nonresident Composite Payment Return, on behalf of that owner/shareholder and pay to the State an amount equal to the highest income tax rate applicable to non corporate owners/shareholders (5%) or corporate owners (6-1/2%) multiplied by the owner's/shareholder's pro rata share of income allocated and apportioned to this State.

Two copies of this schedule shall be distributed to the owner/shareholder and a copy attached to Form 65/Form 20S. An additional copy shall be maintained with the Subchapter K entity's/S corporation's books and records. Form 65/Form 20S will be considered incomplete if Alabama Schedule K-1(s) are not properly completed and attached to Form 65/Form 20S.

**Instructions to Owner/Shareholder**

The amounts shown on lines M, N, O, U, Y, and W of Schedule K-1 should be entered on the appropriate lines of your 2004 Alabama income tax return (Form 40 and Form E40 for residents and Form 40NR for non-residents). If the Alabama adjusted income is a net loss, the net loss to

be deducted on the Alabama individual return may not exceed the owner's/shareholder's Alabama adjusted basis in the ownership of the Alabama Subchapter K entity/S corporation, plus the owner's/shareholder's Alabama adjusted basis in an indebtedness of the Alabama Subchapter K entity/S corporation to the owner/shareholder.

**Line M.** The Alabama Adjusted Income/Loss should be entered on Form 40, Form E40, or 40NR, Schedule E.

**Line N.** The Guaranteed Payments from the Subchapter K entity should be entered on Form 40, Form E40, or Form 40NR, page 1, line 6, wages, salaries, tips, etc.

**Line O.** Alabama law follows Federal Regulations regarding the §179 expense deduction limitation. When completing Section A, Part 1, of the Federal Form 4562, use the information provided by the Subchapter K entity/corporation along with information from other sources. The §179 expense deduction information will be provided on a separate schedule for each shareholder. This will allow for the determination of the allowable deduction using Alabama income (loss). Enter this figure as a negative amount on Form 40, Form 40NR, page 2, Part 1, "other income" line 8. This allowable amount (or portion thereof) is allowable only if it has not been included elsewhere on the return.

**Line P.** Investment interest expenses on this line should be combined with investment interest expenses from other sources and entered on Form 4952A to determine how much of your total investment interest is deductible.

**Line Q.** Investment income on this line should be combined with investment income from other sources and entered on Form 4952A.

**Line R.** Investment expenses on this line should be combined with investment expenses from other sources and entered on Form 4952A.

**Line S.** Charitable Contributions should be added to any other contributions the owner/shareholder made, and the total should be entered on Schedule A. See the instructions for Schedule A, Form 40 or Form 40NR, for further information.

**Line U.** The composite payment made by the Subchapter K entity/S corporation on behalf of the nonresident owner/shareholder can be claimed by nonresidents as an estimated payment on the Form 40NR, page 1, line 24. If a nonresident owner/shareholder claims a composite payment, a Schedule K-1 must be attached to Form 40NR.

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***NOTE: Lines V through X in these instructions apply only to S corporations***

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**Line V.** Income Taxes paid to U.S. should be included in the Federal Income Tax deduction claimed on Form 40, Form E40, or Form 40NR. See the instructions for Form 40, Form E40, or Form 40NR for further information.

**Line W.** Casualty Losses incurred by the S corporation may be claimed as an itemized deduction on Schedule A, Form 40, Form E40, or Form 40NR, if such amount exceeds 10% of your adjusted gross income. Federal Form 4684 must be attached to individual returns. See the instructions for Schedule A for further information.

**Line X.** Reduce your basis in stock of the corporation by the withdrawals and distributions on this line. If these distributions exceed your basis, the excess is treated as gain on investment and is reported on Schedule D, Form 40, Form E40, or Form 40NR.